

TAX RELIEF KIT

U.S. DEPARTMENT OF TREASURY, OFFICE OF TAX POLICY

- **MILLIONS OF AMERICAN FAMILIES ARE BENEFITING FROM TAX RELIEF** **PG. 1**
- **THE TOLL OF TWO TAXES: THE REGULAR INCOME TAX AND THE AMT** **PG. 2**
- **WHO PAYS MOST INDIVIDUAL INCOME TAXES?** **PG. 3**
- **STATE-BY STATE ESTIMATES & EFFECTS OF PRESIDENT'S TAX CUTS 2001-2006** **PG. 4**

MILLIONS OF AMERICAN FAMILIES ARE BENEFITING FROM TAX RELIEF

As a result of the President's Economic Growth and Tax Relief Reconciliation Act of 2001, the Jobs and Growth Tax Relief Reconciliation Act of 2003, the Working Families Tax Relief Act of 2004, and the Tax Increase Prevention and Reconciliation Act of 2005 every taxpayer who paid income taxes will get tax relief this year.

- 113 million taxpayers will see their taxes decline by an average of \$2,216.
- A family of four earning \$40,000 will receive tax relief of \$2,052.
- Over 5 million individuals and families will see their income tax liabilities completely eliminated.
- 45 million families with children will receive an average tax cut of \$2,864.
- 15 million elderly individuals will receive an average of \$2,934.
- 27 million small business owners will save an average of \$4,712.

President Bush has called on Congress to act to prevent tax increases. If Congress does not act, failure to extend the President's tax relief permanently would raise taxes on American taxpayers in future years.

- In 2010, the small business expensing limit will shrink from \$112,000 (indexed) to just \$25,000, increasing the cost of capital investments for America's small businesses;
- In 2011, the top tax rate on dividends will increase from 15 to 35 percent, while the top tax rate on capital gains will climb from 15 to 20 percent, raising the tax burden on retirees and families investing for their future;
- In 2011, low-income families with one or two children will no longer be eligible for the refundable child tax credit; and
- In 2011, the tax rate relief, the new 10-percent tax bracket, estate tax repeal, marriage penalty relief, and all the remaining tax relief enacted over the past few years will sunset, resulting in tax increases for every taxpayer who pays income taxes.

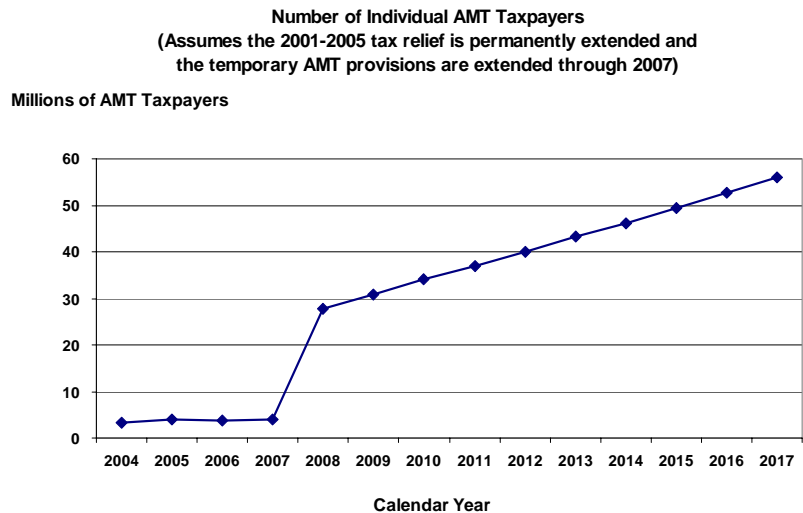
The economy is stronger today because of the tax relief measures enacted during President Bush's administration. The success of the President's economic program, including tax relief, can be seen throughout the economy.

- Economic growth has averaged more than 3.3 percent since the beginning of 2003.
- The economy has generated 2.1 million net new jobs in the year ending December 2006, and almost 7.5 million since August 2003.
- At 4.6 percent, the unemployment rate remains below its average of the 1970s, 1980s, and 1990s.
- Real, after-tax incomes are over 10 percent higher since December 2000.

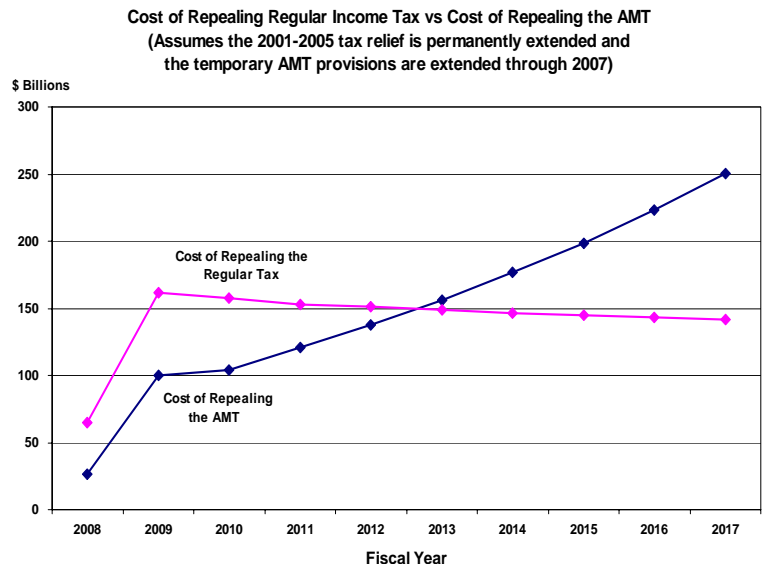
THE TOLL OF TWO TAXES: THE REGULAR INCOME TAX AND THE AMT

The alternative minimum tax (AMT) is a second income tax system that runs parallel to the regular individual income tax. First enacted in the late 1960s, the AMT was intended to target a small group of high-income individuals—who had managed to avoid all taxes—to ensure they paid a minimum amount of tax. Changes since the AMT's original enactment mean that today it reaches into the ranks of the middle class, potentially denying them the benefit of many of the deductions, credits, and lower tax rates available under the regular income tax system. The AMT also significantly increases the complexity of tax filing for taxpayers subject to the AMT and for millions of additional taxpayers who must complete AMT forms to determine they are not subject to the AMT.

- Left unchanged, the AMT will affect increasing numbers of taxpayers. As can be seen in the graph to the right, assuming the President's tax relief is made permanent and the temporary AMT provisions are extended through 2007, the number of taxpayers with increased taxes due to the AMT will increase from 4 million in 2007 to almost 30 million in 2008 and to 56 million in 2017.



- The cost of addressing the AMT will also grow rapidly. Assuming the President's tax relief is made permanent and the temporary AMT provisions are extended through 2007, in 2009 the AMT will increase the amount of tax individuals pay by \$91 billion, rising to \$250 billion in 2017.
- The graph shows that by 2013 less revenue would be lost from repealing the regular income tax than from repealing the AMT.



WHO PAYS MOST INDIVIDUAL INCOME TAXES?

The individual income tax is highly progressive—a small group of high-income taxpayers pay most of the individual income taxes each year.

- In 2004, the latest year of available data, the top 5 percent of taxpayers paid more than one-half (57.1 percent) of all individual income taxes, but reported one-third (33.4 percent) of income.
- The top 1 percent of taxpayers paid 36.9 percent of all individual income taxes in 2004. This group of taxpayers has paid more than 30 percent of individual income taxes since 1990. Moreover, since 1990 this group's tax share has grown *faster* than their income share.

Share of Individual Income Taxes and Income, 1990-2004						
Share of Individual Income Taxes [Share of Adjusted Gross Income]						
	Top 1%	Top 5%	Top 10%	Top 25%	Top 50%	Bottom 50%
2004	36.9 [19.0]	57.1 [33.4]	68.2 [44.4]	84.9 [66.1]	96.7 [86.6]	3.3 [13.4]
2000	37.4 [20.8]	56.5 [35.3]	67.3 [46.0]	84.0 [67.2]	96.1 [87.0]	3.9 [13.0]
1995	30.3 [14.6]	48.9 [28.8]	60.8 [40.2]	80.4 [63.3]	95.4 [85.5]	4.6 [14.5]
1990	25.1 [14.0]	43.6 [27.6]	55.4 [38.8]	77.0 [62.1]	94.2 [85.0]	5.8 [15.0]
Source: U.S. Department of Treasury, Office of Tax Analysis.						

- Taxpayers who rank in the top 50 percent of taxpayers by income pay virtually all individual income taxes. In all years since 1990, taxpayers in this group have paid over 90 percent of all individual income taxes. Since 1999, this group paid over 96 percent of the total. In fact, in 2004 they were paying 96.7 percent of all individual income taxes.

The President's tax cuts have shifted a larger share of the individual income taxes paid to higher income taxpayers. In 2007, with nearly all of the tax cut provisions full in effect (e.g., lower tax rates, the \$1,000 child credit, marriage penalty relief), the projected tax share for lower-income taxpayers will *fall*, while the tax share for high-income taxpayers will *rise*.

- The share of taxes paid by the bottom 50 percent of taxpayers will fall from 3.8 to 3.4 percent.
- The share of taxes paid by the top 1 percent of taxpayers will rise from 35.8 percent to 36.0 percent.

Projected Share of Individual Income Taxes and Income in 2007						
Share of Individual Income Taxes [Share of Adjusted Gross Income]						
	Top 1%	Top 5%	Top 10%	Top 25%	Top 50%	Bottom 50%
With Tax Cuts	36.0 [20.1]	56.5 [34.7]	67.7 [45.5]	84.5 [66.8]	96.6 [86.9]	3.4 [13.1]
Without Tax Cuts	35.8 [20.1]	55.3 [34.7]	66.4 [45.5]	83.8 [66.8]	96.2 [86.9]	3.8 [13.1]
Source: U.S. Treasury, Office of Tax Analysis.						
^[1] Estimates of tax paid ignore any behavioral responses to the tax cuts.						
NOTE: Percentile groups begin at income of: Top 50% \$35,244; Top 25% \$69,653; Top 10% \$115,511; Top 5% \$159,862; Top 1% \$396,889.						

**COMBINED EFFECT OF THE
ECONOMIC GROWTH AND TAX RELIEF RECONCILIATION ACT OF 2001 (EGTRRA) &
JOBS AND GROWTH TAX RELIEF RECONCILIATION ACT OF 2003 (JGTRRA)**

STATE-BY-STATE DISTRIBUTION

**BASED ON NUMBER OF RETURNS FILED IN 2006 THAT WOULD HAVE BENEFITED FROM THE ACTS
(in thousands)**

	Entire EGTRRA and JGTRRA Acts ¹	Specific Provisions of the Acts					Addendum: Returns with Business Income ³ Benefiting from Acts
		New 10% Bracket	Reduction in Top Rates	Reduction of Marriage Penalty	Increase in Child Tax Credit	Reduction in Rates on Capital Gains and Dividends ²	
United States	108,950	97,024	27,954	34,080	27,975	17,671	26,015
Alabama	1,541	1,330	304	480	458	217	343
Alaska	272	250	77	85	64	45	72
Arizona	2,055	1,826	515	633	531	328	450
Arkansas	899	777	156	295	262	123	224
California	12,839	11,377	3,749	3,907	3,141	2,231	3,402
Colorado	1,783	1,614	511	590	432	310	518
Connecticut	1,401	1,264	481	462	327	276	342
Delaware	336	305	95	104	85	55	65
Florida	6,751	5,937	1,594	1,933	1,692	1,060	1,646
Georgia	3,132	2,742	752	935	878	480	788
Hawaii	511	465	132	154	120	81	129
Idaho	491	436	94	176	133	74	146
Illinois	4,731	4,234	1,317	1,489	1,225	795	1,076
Indiana	2,309	2,086	509	779	628	350	495
Iowa	1,094	994	226	385	290	167	300
Kansas	996	895	220	350	267	157	260
Kentucky	1,405	1,245	277	476	381	205	318
Louisiana	1,363	1,156	259	415	436	187	328
Maine	500	453	99	165	127	74	138
Maryland	2,259	2,049	762	691	559	409	518
Massachusetts	2,568	2,335	846	813	567	480	646
Michigan	3,642	3,286	933	1,234	960	583	776
Minnesota	2,017	1,847	552	691	494	345	514
Montana	343	305	63	112	86	50	113
Mississippi	896	757	147	255	288	112	193
Missouri	2,085	1,866	454	685	555	315	475
North Carolina	3,117	2,739	678	983	873	467	749
North Dakota	244	222	45	82	62	36	78
Nebraska	656	594	135	225	172	99	176
Nevada	975	883	252	273	239	155	199
New Hampshire	539	495	154	186	130	95	134
New Jersey	3,434	3,069	1,177	1,108	834	657	769
New Mexico	656	575	137	194	177	93	151
New York	6,995	6,211	2,055	1,942	1,724	1,184	1,649
Ohio	4,420	4,013	1,073	1,281	1,062	662	904
Oklahoma	1,175	1,029	222	396	328	170	316
Oregon	1,336	1,200	320	439	334	213	349
Pennsylvania	4,705	4,251	1,154	1,530	1,192	755	967
Rhode Island	412	375	112	127	99	68	97
South Carolina	1,496	1,310	301	447	427	212	329
South Dakota	289	260	52	96	75	42	91
Tennessee	2,112	1,859	421	670	593	307	492
Texas	7,721	6,710	1,805	2,409	2,118	1,191	1,922
Utah	835	749	175	304	228	131	225
Vermont	249	227	56	80	60	39	73
Virginia	2,958	2,659	896	979	723	531	650
Washington	2,448	2,219	688	813	602	420	574
Wisconsin	2,164	1,981	514	736	549	344	476
West Virginia	587	518	103	207	160	83	114
Wyoming	200	182	48	68	51	33	59
DC	240	215	89	35	46	43	52
Other Areas	767	649	171	176	130	133	142

Notes and footnotes appear on following page.

I- 26-07

Notes

The figures in the table are based on tabulations of all individual income tax returns filed and processed through the IRS Individual Master File (IMF) during calendar year 2006. Most returns filed in 2006 were for tax year 2005.

Classification by state was based on the address used on the return. Usually this address is the taxpayer's home address. However, some taxpayers may have used the address of a tax attorney or accountant, or a place of business, and that address could be in a different state than the taxpayer's home.

Footnotes

¹ The number of returns benefiting from each of the specific provisions shown may not add to the number benefiting from the entire package because some returns will benefit from more than one provision. In addition to the provisions shown separately, the Acts included a temporary increase in exemption levels for the alternative minimum tax (AMT).

² Only returns with capital gains and dividend income are included. Returns reporting no such income can also benefit from the provision because they will receive higher returns on other investments.

³ Returns with business income are those that report at least one dollar of income or loss from a sole proprietorship, farm proprietorship, partnership, S corporation, and/or rental income.